



**UNITED  
BULGARIAN  
BANK**

**BUSINESS ANALYSES**

A Member of NBG Group

June 2007

## Bulgarian non-banking finance market

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### CONTENTS

<b>I. INSURANCE MARKET .....</b>	<b>2</b>
1. GENERAL INSURANCE .....	3
2. LIFE INSURANCE .....	7
3. HEALTH INSURANCE .....	11
<b>II. PENSION FUNDS .....</b>	<b>14</b>

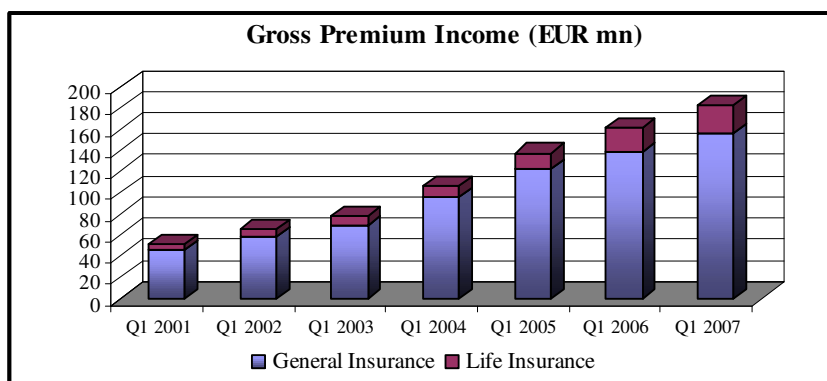
## I. Insurance market

### *Bulgarian insurance market grew by 14% y/y in Q1 2007*

The insurance market in Bulgaria has been growing steadily in recent years, mainly due to strong revenue from mandatory insurance policies such as third party liability for motor vehicles. However, it is still underdeveloped. Bulgaria's EU membership is expected to bolster business activity further and raise personal incomes supporting the growth of the sector.

The premium income (PI) of the 32 licensed insurance companies grew by 14% y/y to BGN 358.7mn (EUR 183mn) in Q1 2007, according to Financial Supervision Commission data. The insurance premium of Q1 2007 is calculated to have amounted to 0.69% of GDP (i.e. the insurance penetration). As compared to the result of the same period of previous year, the insurance penetration is higher by 0.05%. The Q1 2007 gross premium per capita came to BGN 46.7 as compared to the Q1 2006 amount of BGN 41.

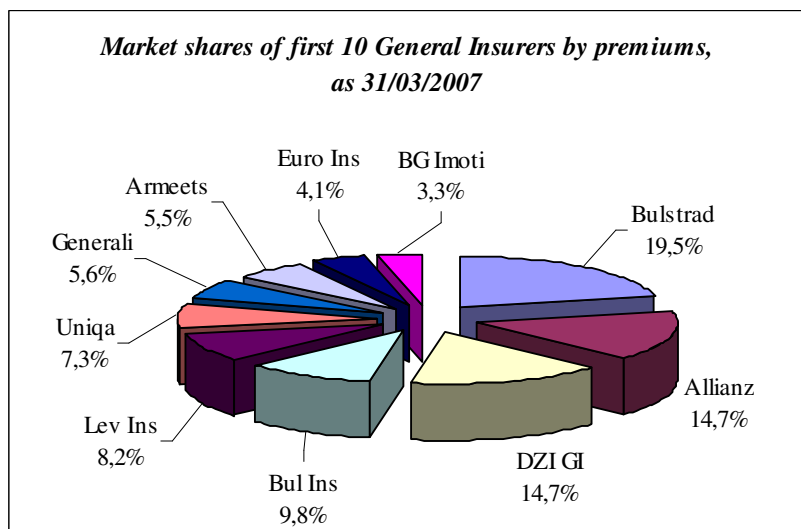
By the end of Q1 2007 the non-life insurance field and the life insurance field were making the respective 85.2% and 14.8% of the gross premium incomes as compared to the Q1 2006 percentages of 86.3% and 13.7%. The life insurance business is growing faster than the non-life insurance and the fact comes to confirm the tendency for faster development of the life insurance activities within the several next years.



Source: FSC

## 1. General insurance

In Q1 2007 the premium income of general insurers increased by 12.6% to BGN 305.6mn (EUR 156mn). The insurance penetration index came to 0.58% as compared to 0.55% of Q1 last year, while the per capita insurance premia came to BGN 39.8 in Q1 2007 and BGN 35.4 in Q1 2006.



Source: FSC

The market leader for the first quarter of the year is *Bulstrad Insurance and Reinsurance Company* with a market share of 19.49% and a premium coming to BGN 59,567mn. The last year's number three - *Allianz Bulgaria* - is now placed second with a market share of 14.75% and premium amount of 45,078mn, while the last year's number one *DZI Non-life Insurance Company* is presently placed third with a market share of 14.74% and a premium of BGN 45,045mn. *Bul Ins* reinforced its fourth position to 9.78% of the market (from 9.50% a year earlier), while *Lev Ins* took the fifth position from *Uniqa*, thanks to its 38.6% y/y growth. *BG Imoti* is the only company, among the general insurers holding more than 2% of the market, posting a better performance (78.94%).

The analysis of the insurance activity of the first three months confirms the fact that the smaller companies are augmenting their market shares while the major have theirs shrinking. Notwithstanding the market concentration - the three leading companies hold about 50% of the market - the top companies have diminished their market positions by 2% as compared to the same period of 2006 and by 4% as compared to 2005.

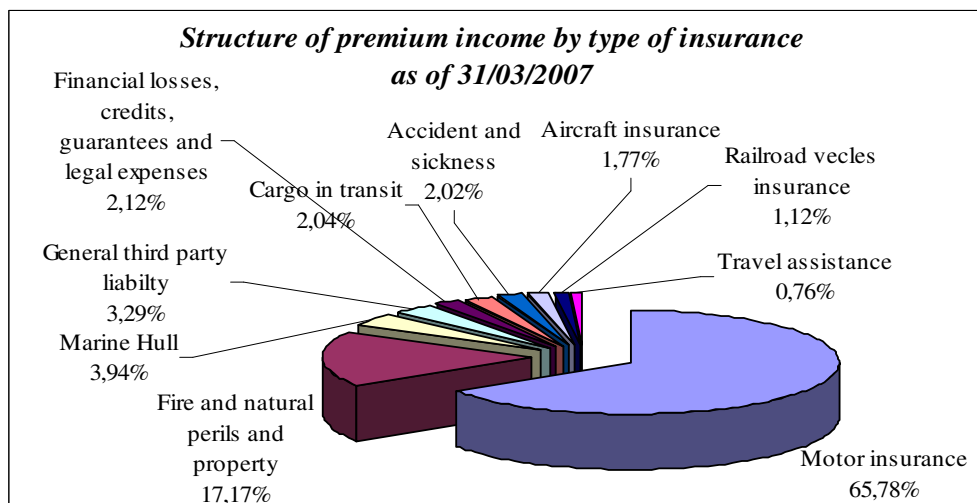
**Financial Indicators of General Insurance Companies**

Position	Insurer	2005 (as of end March)			2006 (as of end March)			2007 (as of end March)		
		Premium Income (BGN mn)	y/y growth (%)	Market share (%)	Premium Income (BGN mn)	y/y growth (%)	Market share (%)	Premium Income (BGN mn)	y/y growth (%)	Market share (%)
1	Bulstrad	49,939	27,06%	21,30%	48,208	-3,46%	17,75%	59,568	23,56%	19,49%
2	Allianz	36,753	49,72%	15,68%	39,346	7,05%	14,49%	45,078	14,57%	14,75%
3	DZI GI	42,990	53,40%	18,34%	55,742	29,66%	20,53%	45,045	-19,19%	14,74%
4	Bul Ins	23,856	10,97%	10,18%	25,797	8,14%	9,50%	29,890	15,86%	9,78%
5	Lev Ins	17,998	138,16%	7,68%	18,084	0,48%	6,66%	25,060	38,57%	8,20%
6	Uniq (Vitosha)	17,835	28,65%	7,61%	20,610	15,55%	7,59%	22,408	8,73%	7,33%
7	Generali (Orel)	9,415	-55,23%	4,02%	16,951	80,04%	6,24%	17,169	1,28%	5,62%
8	Armeets	8,710	152,76%	3,72%	12,606	44,72%	4,64%	16,661	32,17%	5,45%
9	Euro Ins	8,477	5,80%	3,62%	10,310	21,62%	3,80%	12,677	22,96%	4,15%
10	BG Imoti	3,013	-9,84%	1,29%	5,667	88,10%	2,09%	10,140	78,94%	3,32%
11	Victoria	4,442	64,54%	1,90%	4,649	4,65%	1,71%	5,818	25,15%	1,90%
12	AIG	3,022	74,73%	1,29%	4,444	47,04%	1,64%	5,097	14,68%	1,67%
13	HDI	2,002	36,91%	0,85%	2,069	3,32%	0,76%	3,034	46,67%	0,99%
14	Interamerican BG	1,717	29,06%	0,73%	1,747	1,70%	0,64%	2,737	56,70%	0,90%
15	Energya	2,545	55,99%	1,09%	0,684	-73,12%	0,25%	1,428	108,85%	0,47%
16	ozk	1,052	-12,11%	0,45%	1,771	68,38%	0,65%	1,392	-21,39%	0,46%
17	UBB AIG	-	-	-	-	-	-	0,982	-	0,32%
18	DSK Guarantee				0,500		0,18%	0,792	58,19%	0,26%
19	BAEZ	0,648	1426,93%	0,28%	0,912	40,74%	0,34%	0,669	-26,64%	0,22%
20	QBE Sofia	1,202	4,65%	0,51%	1,473	22,50%	0,54%	-	-	-
21	Europa	0,195	-82,51%	0,08%	no licence	no licence	no licence	no licence	no licence	no licence
22	Hildon (Jupiter)	2,106	-47,48%	0,90%	no licence	no licence	no licence	no licence	no licence	no licence
	<b>Total</b>	<b>234,416</b>	<b>27,23%</b>	<b>100,00%</b>	<b>271,570</b>	<b>15,85%</b>	<b>100,00%</b>	<b>305,645</b>	<b>12,55%</b>	<b>100,00%</b>

Source: FSC and UBB calculations

The market is still dominated by motor insurance - Autocasco and MTPL insurance, including Green Card insurance – accounting for 65.8% of total revenues in Q1, or 0.6% more as compared to the same period of last year. The Autocasco insurance premium, excluding railway transportation, came to BGN 116,110mn, which makes 1/3 of the companies' incomes for the first three months. MTPL insurance has generated incomings of BGN 84,931mn; BGN 1,586mn come from Green Card insurance sales.

The results come as no surprise in view of our full EU membership and the requirement for MTPL range of at least 90%. The statistics of May 2007 show that the number of insured motors comes to little more than 91%. The report was prepared by the Informational Center of the Guarantee Fund where the information received from traffic police and the information about the insurance policies sales is compared every week. The Center stressed on the fact that the MTPL insurance range was 91.5% only a month earlier which comes to show that some of the expired policies are not being renewed. FSC is as well worried about the percentage decrease. If the tendency for low percentage rises the MTPL insurance range will drop below the compulsory 90% by the middle of the year.



Source: FSC

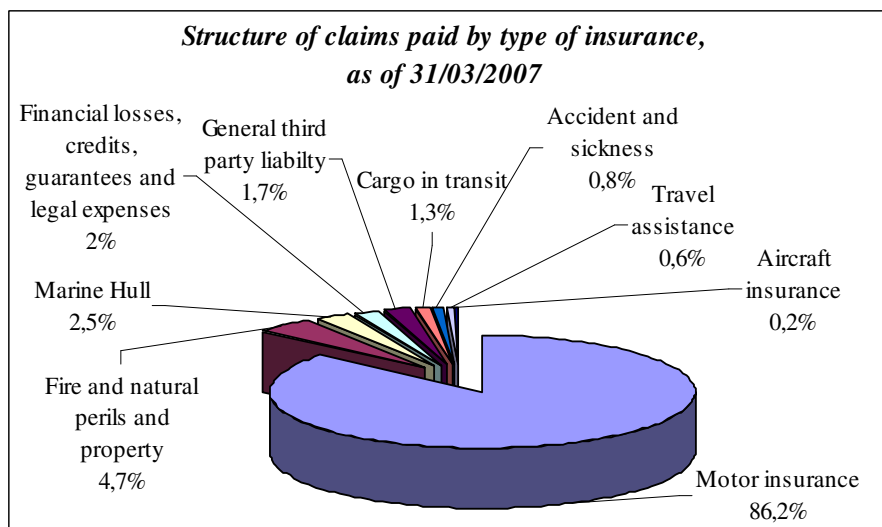
The aircraft and railroad vehicles insurance segments registered the most robust growth in Q1 2007, generating 50% higher premium income compared to Q1 2006. The comprehensive car insurance, general third-party liability and fire and natural perils insurance segments rose by 37.7%, 25.4% and 10.5% y/y respectively, while third party liability related to the possession and use of motor vehicles, including Green cards, and property damage insurance dropped by 8.4% and 8.1% respectively.

**General insurance - Premium income by type of insurance as of 31/03/2007**

Type	Premium income mn BGN	y/y growth, %	mkt share Q1 2006, %	mkt share Q1 2007, %
1. Accident insurance	6,172	26,13%	1,80%	2,02%
incl. accident insurance of public transport passengers	2,256	53,48%	0,54%	0,74%
2. Sickness insurance	0,000	-96,90%	0,00%	0,00%
3. Land vehicles, excluding railroad vehicles	116,110	37,73%	31,04%	37,99%
4. Railroad vehicles insurance	3,423	57,87%	0,80%	1,12%
5. Aircraft insurance	3,302	72,74%	0,70%	1,08%
6. Marine Hull	10,897	-5,47%	4,24%	3,57%
7. Cargo in transit	6,242	32,39%	1,74%	2,04%
8. Fire and natural perils insurance	39,192	10,53%	13,06%	12,82%
9. Property damage	13,286	-8,12%	5,32%	4,35%
10. Third party liability related to the possession and use of motor vehicles	84,930	-8,39%	34,14%	27,79%
incl. Green card insurance	1,586	-85,30%	3,97%	0,52%
11. Third party liability related to the possession and use of aircrafts	2,109	-10,67%	0,87%	0,69%
12. Third party liability related to the possession and use of ships	1,131	-6,86%	0,45%	0,37%
13. General third party liability	10,051	25,42%	2,95%	3,29%
14. Credit insurance	1,479	-11,92%	0,62%	0,48%
15. Guarantee insurance	0,715	-19,76%	0,33%	0,23%
16. Miscellaneous financial losses	4,291	30,46%	1,21%	1,40%
17. Legal expenses insurance	0,000	-64,90%	0,00%	0,00%
18. Travel assistance	2,315	17,08%	0,73%	0,76%
<b>Total</b>	<b>305,645</b>	<b>12,55%</b>	<b>100,00%</b>	<b>100,00%</b>

Source: FSC

Compensations paid by general insurance companies to clients have increased by 18% y/y to BGN 93.777mn (EUR 47.947mn) in Q1 2007. About 86.2% of compensations were paid on automobile insurance policies.



Source: FSC

**Claims paid by type of insurance, as of 31/03/2007**

Type	Payments th BGN	y/y growth, %	share Q1 2006, %	share Q1 2007, %
1. Accident insurance	780,362	55,33%	0,63%	0,83%
incl. accident insurance of public transport passengers	78,308	-46,41%	0,18%	0,08%
2. Sickness insurance	1,910	-24,02%	0,00%	0,00%
3. Land vehicles, excluding railroad vehicles	55 460,115	18,09%	59,09%	59,14%
4. Railroad vehicles insurance	0,000	0,00%	0,00%	0,00%
5. Aircraft insurance	58,925	28,84%	0,06%	0,06%
6. Marine Hull	2 356,604	9,50%	2,71%	2,51%
7. Cargo in transit	1 241,430	77,04%	0,88%	1,32%
8. Fire and natural perils insurance	3 674,193	-53,78%	10,00%	3,92%
9. Property damage	744,168	-64,44%	2,63%	0,79%
10. Third party liability related to the possession and use of motor vehicles including Green card insurance	25 363,257 7 531,101	51,12% 53,86%	21,12% 6,16%	27,05% 8,03%
11. Third party liability related to the possession and use of aircrafts	98,123	-	0,00%	0,10%
12. Third party liability related to the possession and use of ships	9,003	-	0,00%	0,01%
13. General third party liability	1 583,573	243,13%	0,58%	1,69%
14. Credit insurance	276,468	104,75%	0,17%	0,29%
15. Guarantee insurance	40,381	8,50%	0,05%	0,04%
16. Miscellaneous financial losses	1 557,838	41,22%	1,39%	1,66%
17. Legal expenses insurance	-2,595	-	0,00%	0,00%
18. Travel assistance	532,979	-2,15%	0,69%	0,57%
<b>Total</b>	<b>93 776,734</b>	<b>18,00%</b>	<b>100,00%</b>	<b>100,00%</b>

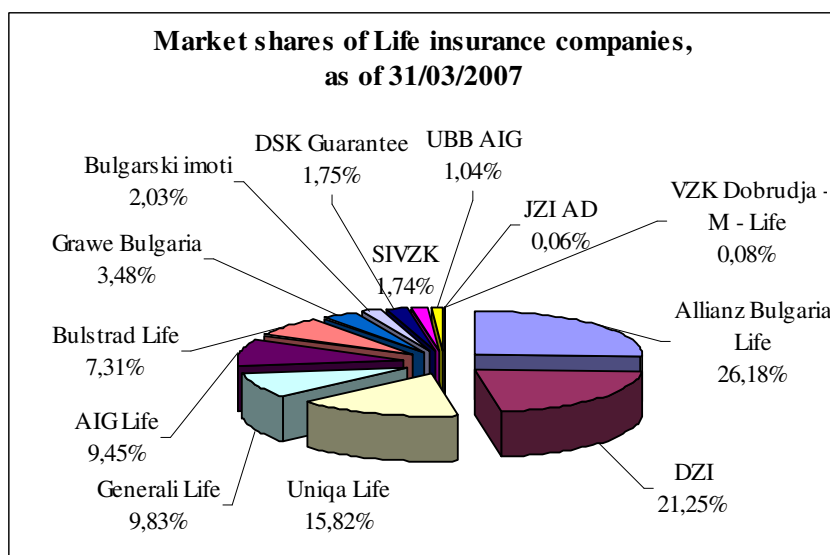
Source: FSC

## 2. Life insurance

The premiums of 13 life insurance companies in Bulgaria grew by 23.3% to BGN 53.055mn (EUR 27.126mn) in Q1 2007, decelerating from 39.8% y/y in Q1 2006.

Contrary to EU, where the life insurance generated more than 60% of premium income, the Bulgarian market is dominated by the non-life insurance, its premiums being almost 6 times those of life insurance. The life insurance penetration is 0.1% and the per capita life insurance premium amounted BGN 6.9 as compared to the Q1 2006 index of BGN 5.6. All this provides considerable potential for development of life insurance segment, supported in the medium to the long run, by credit expansion and accelerated household wealth accumulation.

The top companies *Allianz Bulgaria Life* and *DZI Life Insurance* reversed their positions compared to Q1 2006 and held respectively 26.18% and 21.25% of the market in Q1 2007. The last year's number three – *Bulstrad DSK Life* is now placed sixth, losing almost 30% of its premium income, and in this way the companies ranking from 4 to 6 place in Q1 2006 gained a position in the classification and *Uniqa Life* became third with 15.82% market share. The concentration on Life insurance segment became stronger as the Top 3 Life insurers hold 63.25% of the market in Q1 2007, compared to 60.20% a year earlier.



Source: FSC

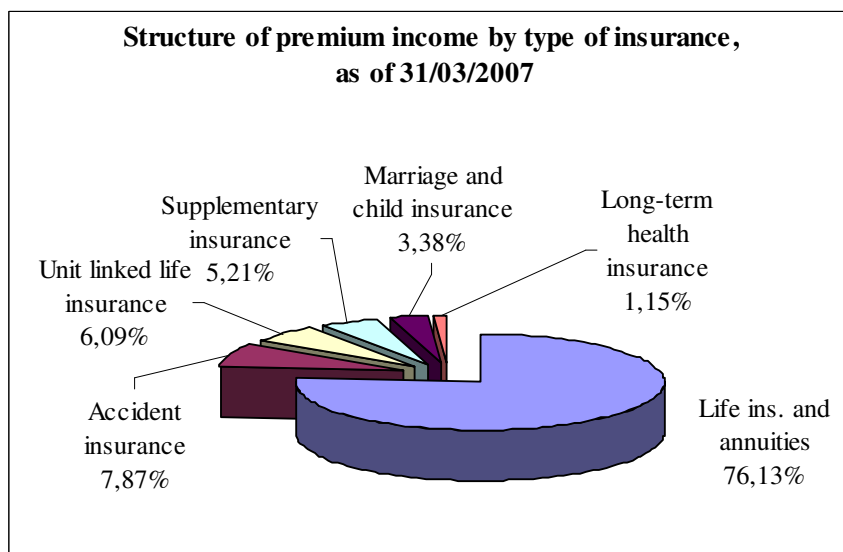
Uniqa Life also reported an extraordinary 83.61% annual increase in terms of premiums, contrasted with the 23-40% y/y growth of the other companies of Top 5.

**Financial Indicators of Life Insurance Companies**

Position	Insurer	2005 (as of end March)			2006 (as of end March)			2007 (as of end March)		
		Premium Income (BGN mn)	y/y growth (%)	Market share (%)	Premium Income (BGN mn)	y/y growth (%)	Market share (%)	Premium Income (BGN mn)	y/y growth (%)	Market share (%)
1	Allianz Bulgaria Life	8,385	48,88%	27,23%	10,014	19,42%	23,26%	13,890	38,71%	26,18%
2	DZI	8,773	91,35%	28,49%	10,469	19,34%	24,32%	11,274	7,69%	21,25%
3	Uniqa Life	1,516	42,74%	4,92%	4,570	201,49%	10,62%	8,391	83,61%	15,82%
4	Generali Life	3,698	32,56%	12,01%	4,232	14,44%	9,83%	5,213	23,18%	9,83%
5	AIG Life	2,815	-2,27%	9,14%	3,619	28,55%	8,41%	5,012	38,52%	9,45%
6	Bulstrad Life	2,115	50,55%	6,87%	5,432	156,87%	12,62%	3,876	-28,63%	7,31%
7	Grawe Bulgaria	1,371	58,90%	4,45%	1,436	4,74%	3,34%	1,847	28,66%	3,48%
8	Bulgarski imoti	0,549	42,23%	1,78%	0,874	59,13%	2,03%	1,078	23,34%	2,03%
9	DSK Guarantee	1,298		4,22%	1,906	46,85%	4,43%	0,928	-51,32%	1,75%
10	SIVZK	0,226	172,51%	0,73%	0,443	95,87%	1,03%	0,924	108,54%	1,74%
11	UBB AIG							0,550	-	1,04%
12	VZK Dobrudja - M - Life	0,044	-78,10%	0,14%	0,051	15,69%	0,12%	0,043	-16,94%	0,08%
13	JZI AD				0,0002		0,0005%	0,0294	14587,00%	0,06%
	<b>Total</b>	<b>30,790</b>	<b>54,49%</b>	<b>100,00%</b>	<b>43,046</b>	<b>39,81%</b>	<b>100,00%</b>	<b>53,055</b>	<b>23,25%</b>	<b>100,00%</b>

Source: FSC and UBB calculations

Life and rent insurance accounted for the largest share of the premium income (76.3%).



Source: FSC

Accident (49.3%), life (37.2%) and marriage and child insurances (33.8%) showed the largest growth of premium income on an annual basis, while rent and supplementary insurances marked a decrease of 25.3% and 19.8% respectively.

**Structure of premium income by type of insurance, as of 31/03/2007**

Type	Premium income mn BGN	y/y growth, %	mkt share Q1 2006, %	mkt share Q1 2007, %
<b>Total Life insurance</b>	40,484	25,75%	74,79%	76,31%
incl. Life insurance	36,087	37,17%	61,12%	68,02%
incl. Pension insurance and annuities	4,397	-25,28%	13,67%	8,29%
<b>Marriage and child insurance</b>	1,791	33,84%	3,11%	3,38%
<b>Unit linked life insurance</b>	3,230	18,05%	6,36%	6,09%
<b>Long-term health insurance</b>	0,610	14,09%	1,24%	1,15%
<b>Supplementary insurance</b>	2,765	-19,78%	8,01%	5,21%
<b>Accident insurance</b>	4,174	49,31%	6,49%	7,87%
<b>Total</b>	<b>53,055</b>	<b>23,25%</b>	<b>100,00%</b>	<b>100,00%</b>

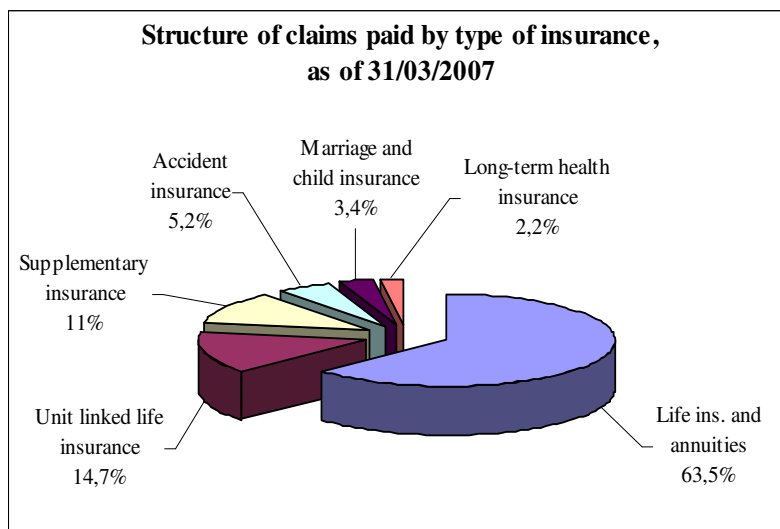
Source: FSC

Benefits paid by life insurance companies grew by 21.3% y/y to BGN 13.137mn (EUR 6.717mn) in Q1 2007. Life and rent insurance represented 63.5% of them.

**Claims paid by type of insurance, as of 31/03/2007**

Type	Payments th. BGN	y/y growth, %	share Q1 2006, %	share Q1 2007, %
<b>Total Life insurance</b>	8 336,367	11,58%	69,00%	63,46%
incl. Life insurance	7 513,304	17,70%	58,96%	57,19%
incl. Pension insurance and annuities	823,062	-24,34%	10,05%	6,27%
<b>Marriage and child insurance</b>	450,723	9,84%	3,79%	3,43%
<b>Unit linked life insurance</b>	1 929,995	108,54%	8,55%	14,69%
<b>Long-term health insurance</b>	292,151	-2,55%	2,77%	2,22%
<b>Supplementary insurance</b>	1 440,519	11,71%	11,91%	10,97%
<b>Accident insurance</b>	687,212	59,38%	3,98%	5,23%
<b>Total</b>	<b>13 136,967</b>	<b>21,33%</b>	<b>100,00%</b>	<b>100,00%</b>

Source: FSC



Source: FSC

The tendency of entry of new foreign players on the Bulgarian market through acquisition of Bulgarian companies, and of sector consolidation persists in early 2007. Strategic consolidation of insurance and banking companies will also go on:

- The biggest event in the sector was the sale of the market share leader DZI AD and its subsidiaries to Belgian insurer KBC Group NV.
- The insurance companies of Bulgarski Imoti and Bulstrad merged and will be operational under the brand name of Bulstrad Vienna Insurance Group. The 2 companies of Bulgarski Imoti joined Vienna Insurance Group in 2002 when the Austrians bought the majority share in them. Bulstrad incorporated in the Group in April.
- France's Societe Generale was licensed in early May 2007 to launch its life insurance arm Sogelife.
- Newcomer KD Life unveiled plans to slice between 8.5% and 10% of the market over the next three years.

The notification regime for the registration of foreign insurance companies, which intend to operate on the territory of Bulgaria, took effect since 1 January 2007. In the first five months the Bulgarian insurance market enjoys top interest – 113 companies and 103 brokers have filled applications. Actually, the objective of majority of them is not to be effectively present on the Bulgarian market, but rather to offer directly services to their clients, doing business in Bulgaria and decrease in this way the administrative cost. In case they would want to enter indeed on the market that would probably be done through acquisition of a local insurance company and not by green investments. The mandatory insurances, already well developed on our market and sold at lower prices than in EU, are not attractive for the foreign insurers. They are interested to less developed segments like professional, financial and property insurances. The life insurance market, being at very initial level of its development and requiring considerably growth of income, did not attract the interest of big EU insurance companies.

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A motion suggesting insurance code amendment was submitted to the Council of Ministers. There should be a **Coverage Fund** whose resources are to compensate the clients of the insurance companies gone bankrupt. The Coverage Fund is to store a small part of the premia paid on the obligatory MTPL insurance (BGN 1.50), Accident insurance (BGN 0.50) and Life insurance (BGN 4). If the motion is carried then the minimum insurance prices will logically be raised. The fund to be organised will be a supplement to the already existing Guarantee Fund.

### 3. Health insurance

The health insurance segment is relatively new for Bulgaria and is restricted by the state monopolized system of mandatory health contributions.

The annual financial results of the supplementary health insurance once more prove 2 things - that the market is not in the least developed and that there is still one leading company.

It is a fact that the Q1 2007 premia registered a marginal 0.8% increase to BGN 11.1mn (EUR 5.7mn), but these figures are way behind the abilities of the field. Per capita premium and the penetration index remained unchanged from the Q1 2006 figures, respectively - BGN 1.44 and 0.02%

**Financial Indicators of Health Insurance Companies**

Position	Insurer	2005 (as of end March)			2006 (as of end March)			2007 (as of end March)		
		Premium Income (BGN)	y/y growth (%)	Market share (%)	Premium Income (BGN)	y/y growth (%)	Market share (%)	Premium Income (BGN)	y/y growth (%)	Market share (%)
1	Generali Zakrila AD	2 565 715	113,26%	67,99%	8 191 422	219,26%	74,53%	5 225 487	-36,21%	47,16%
2	TBI ZO	-	-	-	259 137	-	2,36%	-	-	-
3	Medico 21 AD	320 637	3,81%	8,50%	905 019	182,26%	8,23%	2 258 457	149,55%	20,38%
4	DZOM Zdrave	171 760	-	4,55%	500 339	191,30%	4,55%	944 314	88,73%	8,52%
5	Doverie	115 743	-47,40%	3,07%	501 381	333,18%	4,56%	878 008	75,12%	7,92%
6	DZI ZO	278 709	95,76%	7,39%	343 766	23,34%	3,13%	529 067	53,90%	4,77%
7	ZOD Planeta	24 363	-	0,65%	16 376	-32,78%	0,15%	481 320	2839,18%	4,34%
8	Bulstrad ZO	169 442	2878,27%	4,49%	91 348	-46,09%	0,83%	259 942	184,56%	2,35%
9	ZOK Nadejda	69 538	-	1,84%	89 727	29,03%	0,82%	220 410	145,65%	1,99%
10	ZOK Sv. Nikola Chudotvoretz	29 624	-	0,78%	46 352	56,47%	0,42%	142 377	207,16%	1,28%
11	Bulgarian ZO fund	28 296	607,40%	0,75%	-	-	-	103 416	-	0,93%
12	ZOD Vseotdajnost	-	-	-	-	-	-	14 722	-	0,13%
13	ZOI	-	-	-	766	-	0,01%	11 877	1450,52%	0,11%
14	ZO Bulgaria Zdrave	42 978	-	1,14%	45 229	5,24%	0,41%	11 202	-75,23%	0,10%
	<b>Total</b>	<b>3 773 827</b>	<b>102,59%</b>	<b>100,00%</b>	<b>10 990 863</b>	<b>191,24%</b>	<b>100,00%</b>	<b>11 080 599</b>	<b>0,82%</b>	<b>100,00%</b>

Source: FSC

Another feature of the health insurance market is the fact that it is still dominated by a single company - Generali Zakrila Health Insurance Company with a market share of more than 47%. There is only one other company with a market share of a two-figure number – Medico –21 with a market share of 20.4%. The other 11 companies share the rest 32.5% of the market. The annual financial results confirm that the smaller and new companies take up the shares of the major companies. In Q1 2006, for example, the leader of the market managed 74.8%, 27.6% more as compared to Q1 2007.

Generali Zakrila AD and ZO Bulgaria-Zdrave registered decrease in their premium income: 36.2% and 75.2% y/y respectively.

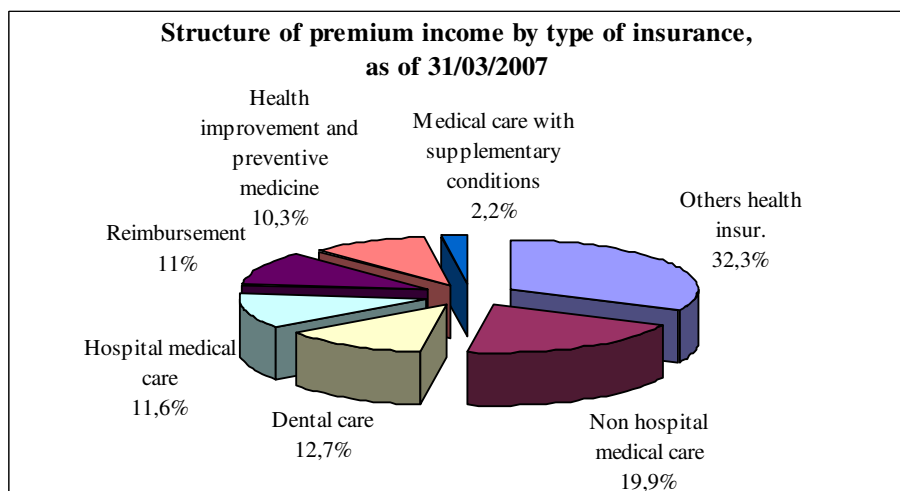
In the structure of premium income, other health insurance set of products care came first (32%), followed by that of hospital care (19.9%).

Other Health Insurance set of products realised a premium increase by 114.5% on an annual basis, Dental Care realised an increase by 6.6% and Non-hospital Medical Care - 1.8%. The other health insurance products registered decrease as compared to the first three months of 2006.

**Structure of premium income by type of insurance, as of 31/03/2007**

Type	Premium income BGN	y/y growth, %	share Q1 2006	share Q1 2007
Health improvement and preventive medicine	1 144 324	-39,17%	17,12%	10,33%
Non hospital medical care	2 201 848	1,78%	19,68%	19,87%
Hospital medical care	1 285 824	-33,70%	17,65%	11,60%
Dental care	1 410 764	6,64%	12,04%	12,73%
Medical care with supplementary conditions	239 313	-46,55%	4,07%	2,16%
Reimbursement	1 221 198	-19,97%	13,88%	11,02%
Others health insur.	3 577 328	114,52%	15,17%	32,28%
<b>Total</b>	<b>11 080 599</b>	<b>0,82%</b>	<b>100,00%</b>	<b>100,00%</b>

Source: FSC



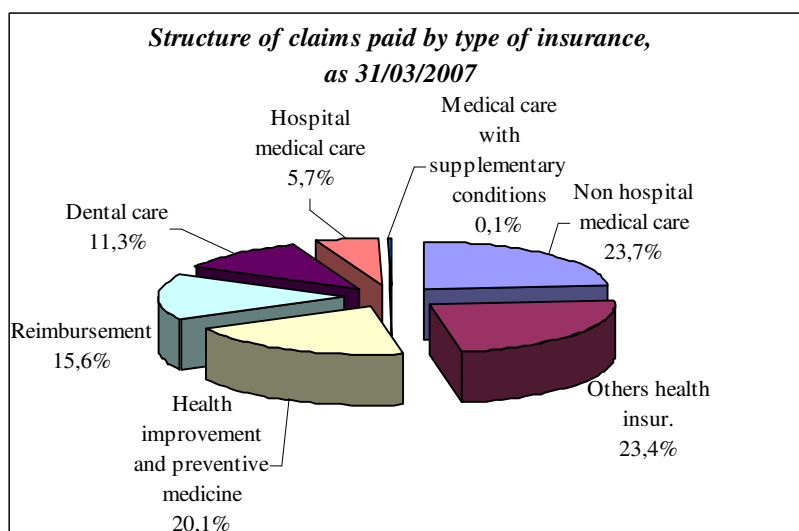
Source: FSC

Compensations paid by health insurance companies marked a 3.4% y/y decrease to BGN 3.360mn (EUR 1.718mn) in Q1 2007. Non-hospital medical care made most of the compensation payments (24%).

**Structure of claims paid, as of 31/03/2007**

Type	Compensation BGN	y/y growth, %	share Q1 2005, %	share Q1 2007, %
Health improvement and preventive medicine	675 801	55,14%	12,52%	20,11%
Non hospital medical care	797 977	-2,17%	23,44%	23,75%
Hospital medical care	190 325	-59,32%	13,45%	5,66%
Dental care	380 832	-30,37%	15,72%	11,33%
Medical care with supplementary conditions	4 908	113,11%	0,07%	0,15%
Reimbursement	522 970	-21,80%	19,22%	15,56%
Others health insur.	787 485	45,21%	15,59%	23,43%
<b>Total</b>	<b>3 360 297</b>	<b>-3,42%</b>	<b>100,00%</b>	<b>100,00%</b>

Source: FSC



Source: FSC

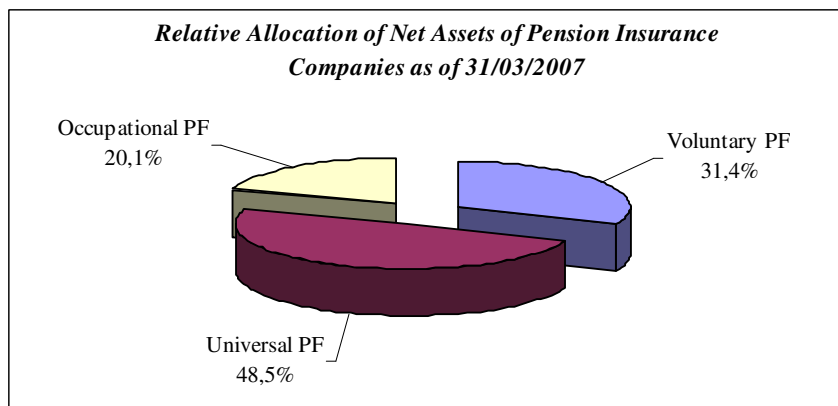
## II. Pension funds

### *Net assets of pension funds rose by 40.9% y/y to EUR 850.8mn as of end March 2007*

The net assets of the private pension funds have increased by 40.9% y/y to BGN 1.664bn (EUR 850.8mn) as of the end-March 2007, according to Financial Supervision Commission data. The stock of assets accounts for 3.7% of the bank assets relative to 3.6% a year ago. The assets of the funds have moved to 3.2% of the projected full-year GDP versus 2.4% a year ago.

The universal funds of the second pension insurance pillar had the largest contribution in the growth rate. Their assets increased by 66.7% y/y to BGN 808mn. The assets of the professional pension funds, where people working under hazardous labour conditions were insured, totalled BGN 334mn, up by 27.1% y/y. The assets managed by voluntary funds of the third social insurance pillar went up by 20.4% to BGN 522mn.

The part of assets controlled by the universal funds increased by 7.5% to 48.5% in a year, while those of occupational and voluntary funds decreased by 2.2% to 20.1% and by 5.3% to 31.4% respectively.



Source: FSC

The top companies PF Doverie and PF Allianz Bulgaria reversed their positions compared to Q1 2006 and represented 32.7% and 31.8% respectively of all assets. PF DZI registered again the most important assets growth: 83%, due to the low yearly base.

**Net assets by company and fund type, as of 31/03/2007**

	Universal			Occupational			Voluntary			Total by company		
	Assets	Mkt share	y/y growth	Assets	Mkt share	y/y growth	Assets	Mkt share	y/y growth	Assets	Mkt share	y/y growth
	mn BGN	%	%	mn BGN	%	%	mn BGN	%	%	mn BGN	%	%
Doverie	317,9	39,35	60,57	134,3	40,22	22,55	92,1	17,63	16,47	544,3	32,71	40,77
Suglasie	98,2	12,16	77,49	63,4	18,99	38,73	18,2	3,49	32,98	179,9	10,81	56,73
DSK-Rodina	60,6	7,50	77,76	13,5	4,04	42,52	34,2	6,54	31,18	108,3	6,51	55,54
Allianz Bulgaria	178,9	22,14	60,47	73,9	22,11	18,72	276,5	52,95	18,17	529,2	31,80	29,82
ING	79,1	9,79	69,57	16,1	4,82	37,70	50,5	9,66	30,82	145,7	8,75	50,30
CCB-Sila	30,9	3,83	93,29	7,5	2,25	52,73	8,5	1,62	46,34	46,9	2,82	75,64
Lukoil-Garant Bulgaria	31,3	3,88	73,38	23,0	6,88	28,02	37,1	7,11	13,57	91,4	5,50	33,06
DZI -Pension Ins.	11,0	1,36	113,20	2,3	0,69	82,40	5,1	0,98	40,70	18,4	1,10	83,07
Toplina	0,0	-	-	0,0	-	-	0,0	-	-	0,0	0,00	-
<b>Total</b>	<b>808,0</b>	<b>100,00</b>	<b>66,67</b>	<b>334,0</b>	<b>100,00</b>	<b>27,07</b>	<b>522,2</b>	<b>100,00</b>	<b>20,45</b>	<b>1664,1</b>	<b>100,00</b>	<b>40,89</b>
by fund type	808,0	48,55	66,67	334,0	20,07	27,07	522,2	31,38	20,45			

Source: FSC and UBB calculations

The number of people insured with pension funds reached 3.253 for the same period, up by 8.1% y/y. The most important was the increase of people insured by PF DZI: 26.6%. But the most people were insured in PF "Doverie": 1.216mn insured or 37.4% of total number of insured.

**Clients by company and fund type, as of 31/03/2007**

	Universal			Occupational			Voluntary			Total by company		
	Clients	Mkt share	y/y growth	Clients	Mkt share	y/y growth	Clients	Mkt share	y/y growth	Clients	Mkt share	y/y growth
	thous	%	%	thous	%	%	thous	%	%	thous	%	%
Doverie	979,4	39,38	7,10	74,5	38,20	2,49	162,0	28,40	3,99	1215,9	37,38	6,38
Suglasie	305,8	12,29	11,08	34,3	17,57	7,88	33,3	5,84	2,15	373,4	11,48	9,92
DSK-Rodina	204,9	8,24	15,63	11,7	6,02	26,08	28,4	4,98	13,71	245,1	7,53	15,86
Allianz Bulgaria	499,4	20,08	8,81	37,2	19,04	0,47	262,9	46,10	0,72	799,5	24,58	5,62
ING	228,4	9,18	7,94	12,0	6,16	12,70	28,8	5,05	6,73	269,2	8,27	8,01
CCB-Sila	117,3	4,72	11,66	9,1	4,69	17,44	18,7	3,28	6,84	145,2	4,46	11,35
Lukoil-Garant Bulgaria	98,2	3,95	12,41	12,5	6,40	12,13	31,7	5,56	2,81	142,3	4,38	10,10
DZI -Pension Ins.	54,0	2,17	26,91	3,8	1,93	42,00	4,6	0,81	13,01	62,4	1,92	26,57
Toplina	0,0	0,00	-	0,0	0,00	-	0,0	0,00	-	0,0	0,00	-
<b>Total</b>	<b>2487,4</b>	<b>100,00</b>	<b>9,46</b>	<b>195,1</b>	<b>100,00</b>	<b>6,61</b>	<b>570,3</b>	<b>100,00</b>	<b>3,01</b>	<b>3252,9</b>	<b>100,00</b>	<b>8,10</b>
by fund type	2487,4	76,47	9,46	195,1	6,00	6,61	570,3	17,53	3,01			

Source: FSC and UBB calculations

Male account-holders made up for 50.35% of universal pension funds' accounts and for 84.61% of occupational funds accounts. The average age of people holding accounts in universal, occupational and voluntary funds was 33, 41.5 and 46, respectively.

**Pension funds account holders by age and sex, as of 31/03/2007**

	Total	15-24	25-34	35-44	45-54	55-64	64	Average age
<b>Universal pension funds (UPF)</b>								
Male	1 252 311	181 543	499 960	460 049	110 759			33,0
Female	1 235 133	177 099	480 335	464 626	113 073			33,1
<b>Total</b>	<b>2 487 444</b>	<b>358 642</b>	<b>980 295</b>	<b>924 675</b>	<b>223 832</b>			<b>33,0</b>
<b>Professional pension funds (PPF)</b>								
Male	165 098	4 695	35 670	55 187	52 469	16 606	471	41,5
Female	30 040	921	4 976	10 732	10 953	2 433	25	41,6
<b>Total</b>	<b>195 138</b>	<b>5 616</b>	<b>40 646</b>	<b>65 919</b>	<b>63 422</b>	<b>19 039</b>	<b>496</b>	<b>41,5</b>
<b>Voluntary pension funds (VPF)</b>								
Male	331 988	4 644	46 791	91 684	102 008	73 528	13 333	46,2
Female	238 349	3 054	30 312	66 021	82 959	50 782	5 221	45,7
<b>Total</b>	<b>570 337</b>	<b>7 698</b>	<b>77 103</b>	<b>157 705</b>	<b>184 967</b>	<b>124 310</b>	<b>18 554</b>	<b>46,0</b>

Source: FSC

More than 21,000 Bulgarians changed their pension insurance funds in the first quarter of 2007, transferring accounts of over BGN 13.3mn. The record-high number of transferred accounts is due to the entry of a new player on the pension insurance market – PF Toplina licensed in late 2006. Since then, one-fifth or nearly 4,000 of approved applicants have moved accounts to Toplina funds.

The automatically distributed individuals in 2006 counted 95 066, 85 196 of whom are clients of the universal funds (47.45% of all insured individuals) and 9 870 (66.16% of all insured individuals) - of the professional funds. The number of the by chance clients of the universal funds has decreased by 6.05 points as compared to 2005. As a result the ratio between the individuals who have chosen a pension fund for themselves and the ones distributed by lot changed from 1:4 in 2003 to 1:1 in 2006. That is to show the positive tendency of people actually choosing their pension insurance company.

The concentration on the supplementary pension insurance market is still very high. The first two insurance companies – Doverie and Allianz Bulgaria held 64.5% of the total net assets and attracted 62% of the clients. However the top companies have diminished their market positions by 2.75% (concerning the assets) and 1.2% (concerning the clients) in the favour of smaller companies.

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Substantial changes were observed in their investment portfolio in Q1 compared with the year-ago period.

The part invested in Government securities decreased by 25% y/y to 19.1% in the voluntary funds portfolio, by 20.4% y/y to 30.2% in the occupational funds portfolio and by 21.5% y/y to 26.1% in the

universal funds portfolio. It was due to the decreasing yields of the Government securities but also to the amendment of the Social insurance code, allowing the pension funds to invest more in riskier instruments in order to secure higher pensions.

In fact the part of assets invested in shares tripled in one year: from 7.75% to 25.09% in the voluntary funds portfolio, from 9.08% to 24.71% in the occupational funds portfolio and from 8.4% to 23.06% in the universal funds portfolio, motivated by the upward trend in the Bulgarian capital market last year.

The investments in corporate bonds and foreign securities also increased.

#### Investment portfolio as of 30/03/2007 (in %)

Instruments	Voluntary			Occupational			Universal			Total		
	Dec/2006	Mar/2006	Mar/2007	Dec/2006	Mar/2006	Mar/2007	Dec/2006	Mar/2006	Mar/2007	Dec/2006	Mar/2006	Mar/2007
1.State securities	21,58	44,19	19,12	33,11	50,65	30,24	32,26	50,46	28,95	28,92	48,22	26,10
2.Securities traded on reg. mkt	34,45	17,72	38,12	32,03	17,98	35,95	32,33	18,28	36,04	32,96	18,01	36,68
2.1.Shares	21,74	7,75	25,09	21,17	9,08	24,71	19,54	8,40	23,06	20,61	8,32	24,04
2.2.Corporate bonds	12,71	9,96	13,03	10,86	8,90	11,25	12,79	9,87	12,98	12,35	9,69	12,64
3.Municipal bonds	0,32	0,45	0,30	0,58	0,96	0,55	0,38	0,65	0,33	0,40	0,65	0,37
4.Bank deposits	22,91	23,88	22,35	20,96	20,7	20,62	21,51	21,19	21,17	21,86	22,06	21,43
5.Mortgage bonds	7,05	11,19	5,39	5,01	7,65	4,24	4,72	7,63	4,20	5,55	8,93	4,59
6.Commercial real estate	3,55	1,62	2,92	1,23	0,89	0,83	0,80	0,56	0,57	1,80	1,02	1,37
7.Derivatives	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
8.Foreign investments	10,14	0,96	11,79	7,08	1,17	7,56	8,00	1,23	8,74	8,51	1,12	9,46
Total	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00

Source: FSC and UBB calculations

#### **Average return provided by pension funds for the past two years is about 8% at end-March 2007**

Average return provided at end-March by pension funds for the past two years were higher compared to end-December: 8.38% for voluntary funds, 8.37% for universal funds and 8.64% for professional funds versus 8.35%, 8.08% and 8.43% respectively. The yields by company vary in a wide range: between 6.02% and 15.07% for the universal funds, 6.17% - 14.26% for the occupational funds and 6.5% - 13.95% for the voluntary ones, explained with the different speed with which the funds moved to restructure their investment portfolios after Bulgaria loosened the investment rules for pension insurance companies. Only ING and Doverie recorded a drop in returns.

CCB Sila and Saglasie posted again the highest return rates: 12.23% and 15.07% for the universal funds, 12.32% and 13.95% for the voluntary schemes and 13.39% and 14.26% for the occupational divisions, attributed to profitable stock exchange investments.

**Pension funds average return rates, 2-years period: 31/03/2005-30/03/2007**

	Universal					Occupational					Voluntary				
	Mar/06	June/06	Sep/06	Dec/06	Mar/07	Mar/06	June/06	Sep/06	Dec/06	Mar/07	Mar/06	June/06	Sep/06	Dec/06	Mar/07
Doverie	9,38%	8,43%	8,56%	6,71%	6,45%	10,44%	9,59%	9,56%	8,05%	6,68%	10,39%	9,95%	9,90%	7,85%	6,50%
Saglasie	7,47%	7,33%	11,82%	11,59%	12,23%	7,30%	7,41%	12,41%	12,45%	13,39%	7,63%	7,79%	11,80%	11,96%	12,32%
DSK-Rodina	6,62%	7,12%	7,00%	6,99%	7,47%	6,82%	7,15%	7,36%	7,64%	8,59%	7,30%	8,14%	8,43%	8,47%	9,47%
Allianz Bulgaria	7,20%	6,54%	6,30%	5,66%	6,02%	7,31%	6,74%	6,44%	5,92%	6,17%	8,36%	8,01%	7,95%	7,40%	7,64%
ING	8,06%	7,85%	7,23%	7,70%	7,09%	8,01%	8,03%	7,43%	7,82%	7,47%	8,45%	8,25%	7,71%	9,02%	8,74%
CCB-Sila	9,14%	8,95%	13,80%	13,25%	15,07%	8,67%	8,43%	13,21%	12,14%	14,26%	8,45%	8,91%	12,26%	11,72%	13,95%
Lukoil-Garant	8,84%	8,27%	7,61%	7,34%	8,36%	9,03%	8,48%	7,76%	6,58%	7,00%	8,13%	7,96%	7,36%	6,77%	7,14%
DZI-Pension Insurance	8,16%	6,95%	8,19%	8,75%	9,46%	.....	8,72%	9,50%	8,80%	10,99%	9,05%	8,61%	9,70%	9,31%	9,59%
<b>Non-modified weighted average</b>	<b>8,30%</b>	<b>7,72%</b>	<b>8,36%</b>	<b>7,48%</b>	<b>7,64%</b>	<b>8,78%</b>	<b>8,28%</b>	<b>9,17%</b>	<b>8,37%</b>	<b>8,18%</b>	<b>8,64%</b>	<b>8,40%</b>	<b>8,48%</b>	<b>7,89%</b>	<b>7,91%</b>
<b>Modified weighted average</b>	<b>7,98%</b>	<b>7,59%</b>	<b>8,60%</b>	<b>8,08%</b>	<b>8,37%</b>	<b>8,31%</b>	<b>7,98%</b>	<b>8,99%</b>	<b>8,43%</b>	<b>8,64%</b>	<b>8,57%</b>	<b>8,47%</b>	<b>8,71%</b>	<b>8,35%</b>	<b>8,38%</b>
<b>Arithmetic average</b>	<b>8,11%</b>	<b>7,68%</b>	<b>8,81%</b>	<b>8,50%</b>	<b>9,02%</b>	<b>8,23%</b>	<b>8,07%</b>	<b>9,21%</b>	<b>8,68%</b>	<b>9,32%</b>	<b>8,47%</b>	<b>8,45%</b>	<b>9,39%</b>	<b>9,06%</b>	<b>9,42%</b>
<b>Min return</b>	<b>4,79%</b>	<b>4,55%</b>	<b>5,16%</b>	<b>4,85%</b>	<b>5,02%</b>	<b>4,98%</b>	<b>4,79%</b>	<b>5,40%</b>	<b>5,06%</b>	<b>5,19%</b>					

Source: FSC and UBB calculations

Bulgaria's financial regulator has granted in May a management licence to a **voluntary job-related fund** of pension insurance company Allianz Bulgaria owned by Germany's Allianz AG. The licence was the first of its kind, which the regulator has issued.

The new fund will manage investment schemes set up by companies that make contributions into a voluntary pension insurance fund on behalf of their employees under agreement with them.

A normative order will be carried by the end of the year, regulating the **multifunds** of different risk levels, which will be introduced in 2008. There is an already organised team of experts of the Association and FSC officials. With the introduction of the multifunds it is expected that the insured individuals to participate themselves in the investment process. There will be three types of profile- of high risk, balanced and of low risk. The multifunds system is to provide the pension funds to take advantage of all the opportunities the capital market can give. The multifunds system is to work in favour of the second and the third old-provision pillars. The experts are positive that the multifunds and the mutual funds will not be into competition, being different investment solutions serving different aims.

The net assets of private pension funds operating in Bulgaria will almost triple by 2010 from BGN 1.664bn (EUR 851mn) at the end of March. New funds were not likely to enter the market and the likely processes in the sector were not of consolidation, but of changing ownership.

*The figures interpreted in this bulletin are provided from reliable institutional sources and UBB cannot bind itself officially with the accuracy and completeness of the data used. This analysis should not be used as a recommendation or proposal for buying or selling any financial instruments whatsoever. Further details on the subject of the above research are available upon request.*